

Performance Audit No. 16-01

A Performance Audit of Utah Communications Authority Financial Management And Transparency



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May 18, 2016

The Office of the Utah State Auditor conducted *A Performance Audit of Utah Communications Authority (UCA) Financial Management and Transparency* at the request of the Governor's Office and presents its findings herewith. This audit was conducted to (1) review governance to ensure proper oversight of UCA resources and (2) evaluate overall UCA transparency with regards to procurement. These issues are particularly important given the UCA Board's (Board) proposed expansion and upgrade of its 800 megahertz radio system, expected to cost taxpayers up to \$240 million.

Deficiencies cited in this audit report contributed to an organizational environment that allowed a former employee to allegedly make more than \$800,000 in personal purchases on UCA credit cards during the time period reviewed. Inadequate internal controls, insufficient Board oversight, and noncompliance with statutory transparency requirements allowed the alleged misuse of UCA credit cards to continue undetected for at least 80 months.

Section 1 of this report cites internal control weaknesses that created an opportunity for the misuse of UCA credit cards to continue undetected. **Section 2** elaborates on how the Board did not follow statutory transparency requirements for Board meetings and did not publicly report transactions. **Section 3** shows how greater Board oversight could reduce opportunities for mismanagement. Due to the significance of the concerns cited in this report, **we recommend that the legislature review UCA's status as an independent state entity.**

The implementation of the recommendations found in this audit report will strengthen UCA's transparency and accountability to stakeholders while continuing to provide a public safety radio system. We appreciate UCA's cooperation throughout the course of this audit. We also recognize UCA's efforts to implement many of the recommendations made in this report shortly after being notified about the concerns.

Sincerely,

David S. Pulsipher, CIA, CFE
Performance Audit Director

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Executive Summary

Insufficient financial oversight and inadequate transparency limits the Utah Communications Authority's (UCA) accountability to stakeholders. The UCA Board (Board) should improve oversight and financial management and adhere to state transparency statutes to improve authority accountability.

Section 1: Improved Financial Management Would Reduce Susceptibility To Misuse Of UCA Resources

Insufficient internal controls, financial review, and management oversight provided opportunities to misuse the entity's credit cards. UCA should implement a system of internal controls to prevent and detect credit card misuse.

Finding 1: Inadequate internal controls allowed alleged fraud to continue undetected. Insufficient internal controls at UCA provided the opportunity for misuse of entity credit cards and the corresponding public funds. Internal control deficiencies include (1) unchecked credit card access, (2) inadequate receipt verification and reconciliation, (3) insufficient management oversight, and (4) noncompliance with individual and monthly transaction limits.

UCA management's failure to implement and enforce internal controls, and follow assumed UCA purchasing policies, created a weak control environment that provided opportunities for credit card misuse. Increased oversight from the Board and UCA management could minimize such risks going forward.

Finding 2: Compliance with state procurement policies will improve UCA financial management. UCA could likely strengthen controls to prevent and detect credit card misuse by following the state's procurement policies. UCA and UCAN employed several practices that subjected the entities to an abnormal susceptibility to the misuse of public funds due to inadequate financial controls and insufficient oversight. Full compliance with the state's procurement policies will likely decrease financial mismanagement risks.

Section 2: Increased Transparency Will Improve Accountability

The Board does not always adhere to the state's *Open and Public Meetings Act* (OPMA), limiting UCA transparency and individual Board member accountability. Adhering to transparency statutes and reporting transactions on the Utah Public Finance Website (UPFW) will increase the Board's accountability.

Finding 3: UCA Board actions do not comply with OPMA. The Board could improve transparency and individual Board member accountability by adhering to OPMA. Since its inception in 2014, UCA has not consistently (1) properly notified stakeholders regarding Board meetings, (2) issued sufficient meeting minutes in a timely manner after Board approval, and (3) adequately recorded or

made publicly accessible Board meeting recordings. Annual transparency training, as required by OPMA, will help ensure statutory compliance.

Finding 4: UCA Board did not comply with most OPMA requirements for closed meetings. The Board did not record the majority of its closed meetings, as required by OPMA. Additionally, insufficient documentation exists to determine the nature of discussions in the closed meetings. Due to the lack of documentation, we were unable to determine the appropriateness of closing meetings. In order to ensure transparency, the Board should comply with OPMA when closing a meeting.

Finding 5: Financial reporting to the UPFW would increase UCA financial transparency. Though UCA is exempt from following the state’s *Administrative Services Code*, it could increase financial transparency by reporting its financial transactions on the UPFW. UCA is one of only three independent entities that does not report to the UPFW. Conflicting statutory requirements require (1) UCA to report to the UPFW and (2) exempt UCA from adhering to the statutory act requiring reporting. Clarifying statute will help to ensure UPFW reports at the level of transparency expected by the legislature.

Section 3: UCA Board Should Improve Oversight

The Board did not adequately oversee UCA finances and did not formally adopt entity policies and procedures, despite statutory requirements to do so. Additionally, the Board consists of more than twice the number of members of any other independent state entity, convoluting Board oversight.

Finding 6: The Board does not adequately oversee financial management. The chair did not appoint an audit committee to oversee financial management, as required by UCA bylaws. Without this committee, the Board did not sufficiently scrutinize UCA expenditures and finances, and was not aware of funds allegedly spent inappropriately by the former employee. Additionally, the absence of this committee contributed to insufficient oversight of financial management controls.

Finding 7: UCA Board has not formally adopted authority policies and procedures. Though UCA relies on nine policy documents from its predecessor—UCAN—the Board had not reviewed, updated, nor formally adopted office policies until after we completed audit work and notified the Board of our concerns. Compliance with UCAN policies would reduce the risk of misuse of entity resources. Additionally, many of the informally adopted policies are outdated and do not reflect entity practices. The Board should review, update, and approve all policies, as required by state statute and Board bylaws.

Finding 8: UCA has significantly more Board members than other independent state entities. UCA has more than twice as many board members as other independent state entities, potentially convoluting oversight. During the audit, UCA employed 24 individuals, meaning it had more Board members (27) as it did employees. UCA and its members would benefit from a review of the Board composition to ensure the Board membership serves the best interest of UCA members, taxpayers, and other stakeholders.

Table of Contents

Executive Summary	5
Table of Contents	7
Background	9
Finding 1: Inadequate Internal Controls Allowed Alleged Fraud To Continue Undetected	15
Unchecked Credit Card Access Provided An Opportunity for Fraud	15
Almost Half Of Sampled Credit Card Transactions Could Not Be Reconciled with Valid Receipts	16
Regular Receipt Reconciliation Would Have Identified Transaction Anomalies	16
UCA Management Did Not Adequately Oversee Credit Card Purchases.....	18
UCA Did Not Restrict Individual And Monthly Purchase Amounts, As Required By UCA Policy.....	18
Recommendations	19
Finding 2: Compliance With Procurement Policies Will Improve UCA Financial Management	21
State Finance Blocks Merchant Category Codes (MCC) Inconsistent With State Purchasing Guidelines	21
UCA Employees Regularly Make Credit Card Transactions With MCCs Typically Blocked By The Division of Finance	22
Retaining Original Receipts Is Necessary For Reconciliation	22
A Purchasing Card Log Would Allow Management To Review Itemized Purchases	23
Random Audits May Have Detected Card Misuse	23
Recommendations	24
Finding 3: UCA Board Actions Do Not Comply With The State's OPMA	27
The UCA Board Does Not Always Properly Notify The Public About Board Meetings.....	27
Insufficient Meeting Minutes Limit Board Transparency	29
Inadequate Board Meeting Recordings Reduces UCA Transparency	32
Board Members Did Not Receive Required OPMA Training In 2015.....	33
Recommendations	34

Finding 4: UCA Board Did Not Comply With Most OPMA Requirements For Closed Meetings	35
Insufficient Meeting Recordings Questions The	
Appropriateness Of Closing Some Board Meetings	35
Insufficient Documentation For Closed	
Meetings Limits Board Transparency.....	37
The Board Has Not Included Required Information	
On The Closed Meeting Recordings They Have Made	38
The Board Improperly Closed A Meeting Without Holding The Required Vote.....	39
Recommendations	40
Finding 5: Financial Reporting To The UPFW Would Increase UCA Financial Transparency	41
Most Independent Entities Report To The UPFW	41
Conflicting Statutory Provisions Confuse UPFW Reporting Requirements	42
Recommendations	42
Finding 6: UCA Board Does Not Adequately Oversee Financial Management.....	45
Recommendations	46
Finding 7: UCA Board Has Not Formally Adopted Authority Policies And Procedures	47
Recommendations	48
Finding 8: UCA HAS Significantly More Board	
Members Than Other Independent State Entities	49
Recommendation	50
Appendix A.....	51
UCA Response	53

Background

The Utah Communications Authority (UCA) is an independent state entity responsible for providing “a public safety communications network, facilities, and 911 emergency services on a statewide basis for the benefit and use of public agencies, and state and federal agencies.”¹ UCA is also responsible for statewide interoperability, management of the 911 Program, and FirstNet² coordination.³ UCA is overseen by a 27-member board (Board) consisting of representatives from state, regional, and local public safety entities, as well as tribal entities.⁴ The Board delegates its authority to an executive director, who administers the daily operations of UCA’s four divisions and its employees, and the 911 Advisory Committee.

History

UCA was established in 2014 by House Bill 155, which brought together the Utah Communications Agency Network (UCAN), the 911 Committee, and the Radio Shop of the Department of Technology Services (DTS). Prior to UCA, the individual portions of the state radio network were separately controlled by both UCAN and DTS. UCAN, which was created in 1997, was originally planned to oversee the 800 megahertz (MHz) radio communication needs of Weber, Morgan, Davis, Salt Lake, and Utah counties. That system plan was later expanded to Summit, Wasatch, and Tooele counties to assist with public safety communication for the 2002 Winter Olympics. The 800 MHz system now extends to Cache, Rich, and Washington counties, and most of Box Elder County.

In addition to the 800 MHz system, the DTS Radio Shop operated the state’s 150 MHz very high frequency (VHF) radio system. Through the combining of these two systems, UCA now owns, operates, and maintains all state-owned 800 MHz and 150 MHz VHF public safety radio systems and supporting microwave infrastructure through radio sites and facilities throughout the state.

Since its formation, the Board has pursued a plan of either upgrading or replacing the current radio network, which could cost in excess of \$240 million dollars. UCA has not yet secured funding for this upgrade.

¹ UT Code 63H-7a-102.

² “Signed into law on February 22, 2012, the Middle Class Tax Relief and Job Creation Act created the First Responder Network Authority (FirstNet). The law gives FirstNet the mission to build, operate and maintain the first high-speed, nationwide wireless broadband network dedicated to public safety. FirstNet will provide a single interoperable platform for emergency and daily public safety communications.” (<http://www.firstnet.gov/about>)

³ UT Code 63H-7a.

⁴ HB 380 passed during the 2016 legislative session and added two additional members to the UCA Board, as well as altered the structure of UCA.

Budget

UCA operates almost entirely on revenue raised through service fees. In fiscal year 2015, UCA reported actual revenues of approximately \$12 million dollars, which were comprised of radio service fees, enhanced 911 (E-911) fees, computer-aided dispatch (CAD) fees, and other service based fees. These radio service fees are paid by users of the radio system, while the E-911 and CAD fees are paid by individuals who own wireless, land-based, and Voice over Internet Protocol (VoIP) phones in the state. UCA reported annual operating expenses of \$11 million dollars for fiscal year 2015, consisting of payroll, depreciation, grant disbursements, maintenance, professional fees, rents, and utilities.

Governance

During the audit, the Board consisted of 25 members, representing the following entities:⁵

- 5 members each individually representing counties of the first and second class
- 7 members representing 7 different regional associations of government
- 1 member representing Native American tribes
- 1 member representing the Utah National Guard
- 3 members each individually representing the fire chiefs, sheriffs, and chiefs of police associations
- 1 member elected by the 911 Advisory Committee
- 6 members are governor-appointed state representatives, or their designee's, from the following state agencies:
 - Utah Department of Transportation
 - Department of Public Safety
 - Department of Natural Resources
 - Department of Corrections
 - Department of Technology Services
 - Department of Health
- 1 member is the Utah State Treasurer, or his designee

House Bill (H.B.) 380, passed during the 2016 Legislative General Session added two additional members to the Board, one appointed by the Speaker of the House of Representatives and one appointed by the President of the Senate, bringing the size of the Board to 27 members.

The Board is responsible for the general oversight of UCA and for ensuring that the communications network is administered according to statute. Board duties include managing the affairs and business of UCA, developing broad policies, and recommending to the governor and legislature any changes to UCA's governing statute. The Board is also tasked with the fiduciary duty of ensuring that UCA funds are lawfully managed, which is facilitated by the

⁵ See UT Code 63H-7a-203.

mandate to examine and approve the annual operating budget and provide for audits. The Board is also vested with the authority to bond.

To carry out these multiple responsibilities, the Board generally conducts monthly Board meetings. These meetings are ordinarily held at the Valley Emergency Communications Center, but have also been held at various other locations throughout the state.

Entity Structure

The Board appoints an executive director to oversee day-to-day operations. This executive director is responsible for supervising UCA's four divisions: Administrative Services, Radio Network, 911, and Interoperability, as well as UCA's employees. The executive director is also responsible for making recommendations to the Board, and administering the various acts, systems, plans, programs, and functions assigned to the office.

The Administrative Services Division provides financial and human resources assistance to the authority under the direction of the Board and the executive director. Until recently, UCA contracted the accounting function, which was responsible for the financial accounting of the authority, as well as the proper collection, deposit, disbursement, and management of the UCA's public funds. The accountant was also responsible to report to the Board and executive director a statement of the condition of UCA's finances at least annually.

The Radio Network Division is responsible for administering "the development, installation, implementation, and maintenance of the Utah Statewide Public Safety Communications network system for the authority."⁶ The division has technicians located throughout the state who perform system maintenance and repairs, as well as other services. In 2015, the Radio Network Division was also tasked by the legislature to conduct a study to examine the possible upgrading and expansion of the radio network.

The 911 Division oversees E-911 and CAD platform development and interoperability, as well as the unification of statewide 911 emergency services networks, and assisting local public safety answering points (PSAPs). The division is also advised by 911 Advisory Committee, which currently consists of 13 members. Similar to the Board, this committee's members are representatives from primary public safety answering points representing each county of the first and second class, seven different regional associations of government, and the Utah Department of Public Safety.

The Interoperability Division reviews and makes recommendations regarding statewide interoperability coordination and federally-established First Responder Network Authority (FirstNet) standards, as well as addressing the issues related to their implementation. The division is also responsible for providing assistance to user agencies, and training on the UCA network and 911 emergency services.

⁶ UT Code 63H-7a-404(1)(a)(i).

To accomplish these interoperability mandates, UCA employs a statewide interoperability coordinator (SWIC). The SWIC's responsibilities include promoting interoperability among the different users of UCA's network, as well as coordinating and resolving issues these users may experience. This individual is also the authority's single point of contact with FirstNet.

Section 1:
Improved Financial Management
Would Reduce Susceptibility To
Misuse Of UCA Resources

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Finding 1

Inadequate Internal Controls Allowed Alleged Fraud To Continue Undetected

Insufficient internal controls at the Utah Communications Authority (UCA) provided the opportunity for misuse of entity credit cards and the corresponding public funds. Internal control deficiencies include (1) unchecked credit card access, (2) inadequate receipt verification and reconciliation, (3) insufficient management oversight, and (4) noncompliance with individual and monthly transaction limits.

UCA management's failure to implement and enforce internal controls and follow UCA's assumed purchasing policies⁷ created a weak control environment that provided opportunities for credit card misuse. Increased oversight from the UCA Board and UCA management could minimize such risks going forward.

Unchecked Credit Card Access Provided An Opportunity For Fraud

UCA provided an opportunity for fraud by granting excessive, unmonitored authority over the use and control of credit cards to one individual. A former UCA employee (1) had a UCA credit card, (2) retained custody of one unassigned credit card, (3) had access to the unassigned UCA travel card, (4) was the only individual authorized to access the UCA credit card account, and (5) received all credit card statements.

Sole control over the UCA credit card account and unchecked access to three credit cards presented an opportunity for credit card misuse without management oversight or individual accountability. It is unclear why UCA needed an unassigned credit card and a travel card when management, administrative staff, and all radio technicians had their own credit cards.

It appears that the unassigned credit card and the credit card issued to a former employee were used extensively for non-business related expenses. UCA should cancel the unassigned credit cards and refrain from issuing unassigned credit cards in the future. Additionally, the person responsible for reconciling receipts to the credit card statement directly from the credit card company should not have the ability to make credit card purchases.

It appears that in repeated cases, the former employee modified the monthly credit card statements and submitted these monthly statements for payment. The former executive director nor accounting necessarily required receipts to justify all credit card payments. Combined with insufficient management authorization, review, and approval, this unfettered access to three credit cards contributed to a weak control environment regarding credit cards.

⁷ Though UCA's policies were not approved at the time of the audit (see Finding 7), UCA staff claimed to follow unapproved policies from a predecessor organization.

Almost Half Of Sampled Credit Card Transactions Could Not Be Reconciled With Valid Receipts

Only 55 percent of sampled credit card transactions could be traced to purchase receipts. Furthermore, almost five percent of the receipts reviewed had different dates, merchant names, or amounts than the reported on the monthly statements, which questions the legitimacy of either the credit card statement or the receipts. Additionally, it appears that accounting approved payments for the entire credit card account balance without reconciling the receipts to the statement for a period of eight months. Failure to reconcile receipts to the credit card statements allowed UCA employees to make purchases without accountability or oversight.

According to UCA's assumed policy, accounting is required to "match the receipts and credit card charge slips to the monthly credit card billing and make payment;"⁸ however, it does not appear that accounting always effectively performed this function.

Regular Receipt Reconciliation Should Have Identified Transaction Anomalies

Three of the 67 transactions reviewed in our sample had discrepancies or noticeable errors that each call into question the legitimacy of either the credit card statement or the receipts. One merchant was misspelled on the credit card statement and two transactions recorded on the credit card statement did not have valid corresponding dates. All three transactions were reviewed and initialed by the former accountant. Figure 1.1 shows the errors contained in these three transactions.

Figure 1.1 Transaction Errors On UCA Credit Card Statements

Transaction	Receipt Date	Statement Date	Transaction	Amount
A	04/13	04/31	The Home Depot	\$144.67
B	04/13	04/13	America's Best Vaule	\$111.58
C	06/25	06825	Crystal Inn Cedar	\$83.48

Source: UCA credit card statements reviewed by former UCA accounting

It is unlikely that the credit card company would record invalid dates and misspelled merchants on monthly statements. It appears that these were data entry errors made while recreating the falsified credit card statements. These errors would have likely been detected if the former executive director and former accountant had thoroughly reviewed and reconciled credit card transactions.

⁸ Assumed UCA Purchasing Policy 7.2.4.

Transaction A. The receipt for transaction A was dated 4/13 while the credit card statement reviewed by the former accountant records the purchase date as 4/31. April only has 30 days, so a transaction could never occur on the 31st day of the month. It appears that the author of the falsified credit card statement transposed the two numbers on the transaction date. The former accountant initialed this receipt as an indication of review.

Transaction B. Transaction B occurred at America's Best Value for a hotel charge. However, the author of the falsified credit card statement misspelled the name of the hotel, and entered the incorrect amount. The receipt for this charge shows only a one-night charge for \$55.79, whereas the credit card statement shows a two-night charge of \$111.58. The former accountant also initialed this receipt as having reviewed this transaction, even though the amounts differ and the merchant is misspelled on the credit card statement.

Transaction C. The credit card statement reviewed by the former accountant for transaction C cites an invalid date ("60825") that appears to be a typing error by the statement's creator. The receipt date was 06/25. It is possible that the statement's creator mistakenly typed an "8" rather than a "/"—used to separate the month from the day—due to their close proximity on the standard 10-key on a computer keyboard. It is unlikely that a credit card company would make such a mistake.

All three of these transactions were initialed by the former accountant, even though they each contain obvious errors including invalid dates, incorrect merchant names, and irreconcilable purchase amounts. It is unclear why the former accountant did not detect these errors in the review and reconciliation.

These three errors were identified from only 67 transactions sampled. It is likely that similar errors occurred throughout the thousands of transactions during at least 80 months of credit card statements wherein it appears UCA/UCAN credit cards were misused. It is unclear why blatant errors were not identified and addressed during the required monthly statement reconciliation wherein accounting was required to "match the receipts and credit card charge slips to the monthly credit card billing."⁹

⁹ Assumed UCA Purchasing Policy 7.2.4.

UCA Management Did Not Adequately Oversee Credit Card Purchases

Contrary to assumed UCA policy, the former executive director and other managers did not formally approve credit card transaction requests prior to purchase, or review and approve purchases prior to payment. It appears that prior authorization may have been given verbally in some cases; however, assumed UCA policy states that prior to a purchase of any amount, the employee should,¹⁰

Submit the documentation to a Manager or the Executive Director for review and approval. The Manager or Executive Director will determine if the budget is adequate to meet the request prior to approval.

UCA does not have any valid documentation demonstrating approval prior to making any of the 67 credit card transactions included in our sample. While three of the transactions in our sample had purchase orders, these purchase orders were all created and signed *after* the purchases were made.

Furthermore, no one thoroughly reviewed or approved purchases made on UCA credit cards. Assumed UCA policy requires the executive director to review and approve payment of the monthly credit card statement.¹¹ Additionally, there is no documentation that the “secondary signor of checks” reviewed and approved payment for purchases made by the executive director, as required by assumed UCA policy.¹² Following these assumed policies may have alerted management of the alleged misuse of UCA credit cards over a period that spanned at least 80 months.

UCA Did Not Restrict Individual And Monthly Purchase Amounts, As Required By Assumed UCA Policy

UCA could have minimized credit card misuse by adhering to its assumed policy that requires limits for both individual transactions and monthly credit card use. UCA’s assumed policy states,¹³

The following amount limitations will be place [sic] on credit card transactions:

	<u>\$ Per Transaction</u>	<u>\$ Per Month</u>
<i>Managers</i>	<i>no limit</i>	<i>no limit</i>
<i>Employee</i>	<i>\$500</i>	<i>\$2,000</i>

¹⁰ Assumed UCA Purchasing Policies 2.2.1, 3.2.2, 4.2.2 (emphasis added).

¹¹ See assumed UCA Purchasing Policy 7.2.5.

¹² See assumed UCA Purchasing Policy 7.2.5.

¹³ Assumed UCA Purchasing Policy 7.2.2.

Figure 1.2 shows the number of instances in which this assumed policy was violated for the three credit cards to which a former employee accused of fraud had custody or access since July 2009.

Figure 1.2 Transactions In Excess Of Policy Limits

Card	Transactions >\$500	Monthly Transactions >\$2,000
Administrative Assistant Card	154	68
Unassigned Card	105	67
UCA Travel Card	12	4

Source: UCA credit card statements (July 2009 – January 2016)

A combined total of 271 transactions made on these three credit cards violated the assumed UCA policy and exposed the entity to unnecessary risk. Additionally, monthly totals exceeded policy limits for 85 percent of the months reviewed. UCA's adherence to its assumed policy of restricting individual and monthly purchase amounts will decrease employees' ability to make excessive and unauthorized credit card charges.

Recommendations

1. We recommend that the UCA Board oversee the implementation of internal controls that includes proper separation of duties, monthly reconciliation of credit card statements to receipts, and regular UCA Board review of UCA finances.
2. We recommend that UCA implement the individual transaction and monthly amount limits on credit card purchases, as required by assumed UCA policy.
3. We recommend that UCA cancel unassigned credit cards.
4. We recommend that UCA refrain from issuing unassigned credit cards or purchasing cards.
5. We recommend that UCA management authorize and approve expenditures, as required by assumed UCA policy, or modify its existing policy.

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Finding 2

Compliance With Procurement Policies Will Improve UCA Financial Management

The Utah Communications Authority (UCA) could likely strengthen controls to prevent and detect credit card misuse by following the state's procurement policies. UCA, and the predecessor to the Radio Division—the Utah Communications Agency Network (UCAN)—employed several practices that subjected the authority to an abnormal susceptibility to the misuse of public funds, due to inadequate financial controls and insufficient oversight. Full compliance with the state's procurement policies will likely decrease financial mismanagement risks.¹⁴

State Finance Blocks Merchant Category Codes (MCC) Inconsistent With State Purchasing Guidelines

Questionable purchases from specific MCCs, such as liquor stores, gas stations, and grocery stores, would have been denied if UCA had followed state purchasing policies, and used purchase cards (p-cards)¹⁵ instead of credit cards. From July 2009 through January 2016, three UCA credit cards were used to make extensive purchases from restricted merchants, as shown in Figure 2.1.

Figure 2.1 Transactions Made On Three UCA Credit Cards With Ordinarily Blocked MCCs

Merchant Type	Approximate Amount
Grocery Stores	\$37,000
Gas Stations	\$21,000
Restaurants	\$21,000
Liquor Stores	\$8,000
Travel	\$8,000
Total	\$95,000

Source: UCA credit card statements (July 2009 – January 2016)

¹⁴ UCA was exempt from following the *Utah Procurement Code* during the period reviewed for this audit. However, H.B. 380, passed during the 2016 Legislative General Session, will require UCA to follow the *Utah Procurement Code* beginning on May 10, 2016.

¹⁵ State purchase cards are subject to policies established by the Division of Finance. These policies restrict card use, require documentation for each purchase, and are subject to random audits to verify legitimacy.

In addition to purchases made to MCCs that are generally blocked by the Division of Finance, additional questionable transactions totaling hundreds of thousands of dollars were made on the three credit cards to which a former employee had access. These transactions were with merchants that do not appear to serve a business purpose. Such transactions include:

- Retail – \$361,000
- PayPal – \$167,000
- Home Improvement – \$44,000

Though the use of p-cards may not necessarily have blocked these purchases, most transactions in these categories do not appear to serve a business function. UCA should block all MCCs that do not serve a business function. Compliance with the *Utah Procurement Code* will prevent UCA employees from using p-cards to make purchases from restricted merchants.

UCA Employees Regularly Make Credit Card Transactions With MCCs Typically Blocked By The Division of Finance

In addition to the transactions made on the three UCA credit cards to which a former employee had access, other UCA employees frequently used their credit cards for transactions with MCCs that would have been blocked by the state's Division of Finance. Food and travel related transactions are the most common among other UCA employees. The former executive director used his UCA credit card extensively at local restaurants and for travel related expenses.

Due to the lack of documentation demonstrating proper authorization, review, and approval of these transactions, we are not able to determine if these transactions served legitimate business purposes. The audit committee of the UCA Board should review transactions made by all UCA employees with credit cards to determine if transactions with merchants typically blocked by the Division of Finance served legitimate business purposes.

Retaining Original Receipts Is Necessary For Reconciliation

UCA does not require employees to submit receipts for credit card purchases in all instances. If an employee did not have a receipt for a purchase using a UCA credit card, UCA management would simply require the employee to complete a monthly form stating whether the receipt was either "lost" or "not given." Though the log includes a column for the employee's signature, this field is not always signed, nor would such a log be sufficient for p-card purchases.

Based on this practice, an employee could conceal fraudulent purchases by merely filling in a date, a merchant, and an amount on this form that corresponds to a modified credit card statement. State p-card policies emphasize that employees "retain all receipts for goods and

services purchased!”¹⁶ Itemized receipts should be reconciled with the employee card log each month, according to the Division of Finance’s p-card policies. Failure to consistently provide receipts for p-card purchases could result in loss of p-card privileges.

Many of the receipts collected by UCA are not the original receipts, as would be required by state purchasing policies. UCA employees frequently scanned, faxed, or photographed original receipts that were then sent to accounting for review and reconciliation. Allowing copied or scanned receipts creates opportunities for employees to create fabricated receipts to disguise fraudulent purchases.

A Purchasing Card Log Would Allow Management To Review Itemized Purchases

UCA does not require credit cardholders to itemize purchases in a card log, as would be required by state purchasing policies. State p-card policies state, “[t]he log allows management to review the types of goods and services purchased on the card and determine where the card is being used.”¹⁷ In addition to not necessarily requiring receipts for credit card transactions, UCA did not retain records of individual items purchased, allowing the creation and acceptance of fictitious receipts to justify fraudulent purchases.

Regular review of the purchase logs, in conjunction with receipt verification with shipping documents and actual assets, would decrease the opportunity for a UCA employee to use credit cards for personal purchases.

Random Audits May Have Detected Card Misuse

If UCA had both followed state purchasing policies and adopted p-cards, its purchases would have been subject to random audits conducted by the Division of Finance. Consequences of improper use of the program detected through random audits range from “suspension of cards to termination of employment.”¹⁸

Compliance with state p-card policies would have subjected UCA credit card holders to random audits that likely would have identified the alleged personal use of UCA credit cards over at least 80 months.

¹⁶ State of Utah Purchasing Card Policies and Procedures Manual, 6.0 (punctuation included in policy).

¹⁷ State of Utah Purchasing Card Policies and Procedures Manual, 3.0.

¹⁸ State of Utah Purchasing Card Policies and Procedures Manual, 12.0.

Recommendations

1. We recommend that UCA replace credit cards with purchasing cards.
2. We recommend that UCA take immediate steps to comply with applicable purchasing policies, including:
 - a. Implementing single purchase credit limits.
 - b. Implementing monthly credit limits.
 - c. Restricting merchant category codes that are inconsistent with the entity mission.
 - d. Retaining itemized monthly logs of purchases for each card.
 - e. Reconciling monthly purchase logs with receipts.
 - f. Paying for only expenditures with original receipts.
 - g. Conducting random, independent audits on card usage.
3. We recommend that UCA block all merchant category codes that do not serve a business function.
4. We recommend that the audit committee of the UCA Board review transactions made by UCA employees with merchants typically blocked by the Division of Finance to determine if those transactions served legitimate business functions.

Section 2: Increased Transparency Will Improve Accountability

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Finding 3 UCA Board Actions Do Not Comply With The State’s Open And Public Meetings Act

The Utah Communications Authority (UCA) Board (Board) could improve transparency and individual Board member accountability by adhering to the state’s *Open and Public Meetings Act* (OPMA). Since its inception in 2014, the Board has not consistently (1) properly notified stakeholders regarding Board meetings, (2) issued sufficient meeting minutes in a timely manner after the Board meetings, and (3) adequately recorded or made publicly accessible Board meeting recordings. Annual transparency training, as required by OPMA, will help ensure statutory compliance.

The Board Does Not Always Properly Notify The Public About Board Meetings

Inadequate meeting notification prevents stakeholders and the public from fully participating in Board meetings. The Board did not provide timely notification for 26 percent of applicable Board meetings reviewed. Additionally, prior to being notified by the Office of the State Auditor (OSA) in April 2016, the Board had never posted notices of meetings in all required locations. The Board should ensure that it provides timely notice of the required time, location, and content of meetings to ensure that the public is informed as to when and where public meetings occur, and what the Board will discuss.

The Board did not always give 24-hour notice for all non-“emergency” meetings. OPMA requires that the public must be given at least 24 hours’ notice prior to holding a board meeting, except in emergency situations. The Board gave proper timely notice for only 14 of the first 19 non-emergency Board meetings held since its inception.

Notices were posted to the Utah Public Notice Website (UPNW) after the meeting was held for the other five Board meetings. The Board posted one notice more than seven months after the meeting occurred. Notifying stakeholders about Board meetings that already occurred does not meet the intent of OPMA.

Figure 3.1 shows the Board’s compliance rate with the OPMA 24-hour notice requirement.

Figure 3.1 The Board's 24-Hour Notice Requirement Compliance

Requirement	Total "Nonemergency" Meetings*	Proper Notice Given	Percent Compliant
Notice given more than 24 hours	19	14	74%

*Excludes one "emergency" meeting when this requirement does not apply

Source: OSA Analysis of Board Meetings (July 2014 – February 2016)

The Board provided notice of the date, time, place, and agendas of five Board meetings *after* the meetings occurred. While all Board meeting notices posted to the UPNW included required information, key information for five of the 20 Board meetings was posted *after* the meetings occurred. Such untimely notice does not provide the public with the necessary information to attend the meeting. Figure 3.2 shows the Board's compliance rate with the OPMA meeting notice informational requirements.

Figure 3.2 Meeting Notice Requirements Compliance

Notice Inclusion Requirement	Total Meetings	Proper Notice Given	Percent Compliant
Meeting Agenda	20	15	75%
Meeting Date	20	15	75%
Meeting Time	20	15	75%
Meeting Location	20	15	75%

Source: OSA Analysis of Board Meetings (July 2014 – February 2016)

The Board did not post meeting notices in required locations. OPMA requires the Board to post notice of each meeting in three locations: the UPNW, at the principal office of the body, and in a statewide newspaper or media correspondent. Figure 3.3 shows the Board's compliance rate with the OPMA meeting notice location posting requirements.

Figure 3.3 Meeting Notice Posting Requirements Compliance

Notice Posting Requirement	Total "Nonemergency" Meetings*	Proper Notice Given	Percent Compliant
UPNW	19	14	74%
Statewide Publication	19	0	0%
Principal UCA Office	Unknown	Unknown**	Unknown

*Excludes one "emergency" meeting when this requirement does not apply

**The UCA Board claims to post proper notice in its primary building. However, we were not able to verify if this occurred for each instance due the impermanent nature of manual postings.

Source: OSA Analysis of Board Meetings (July 2014 – February 2016)

The Board should ensure that appropriate notice of its Board meetings is provided to the public as required by OPMA.

Insufficient Meeting Minutes Limit Board Transparency

The Board's partial compliance with the written meeting minutes requirements of OPMA limits the public's involvement in Board actions. OPMA requires, with few exceptions, that written minutes "be kept of all open meetings."¹⁹ The Board did not always include the following elements in meeting minutes, as required by OPMA:²⁰

1. Meeting location
2. Names of absent members
3. Individual votes

Additionally, the Board did not upload meeting minutes for 95 percent of minutes reviewed within three days of approval, as required by OPMA.²¹

Board minutes have never listed the meeting location despite statutory requirements. OPMA requires that "[w]ritten minutes of an open meeting shall include: . . . the date, time, and place of the meeting."²² A review of UCA's available written meeting minutes showed that most of these minutes included the date and time of the meeting, but none listed the location of the meeting. Figure 3.4 shows the Board's compliance rate with the OPMA meeting minutes requirements.

Figure 3.4 Meeting Minutes Documentation Compliance Rate

Meeting Minutes Requirement	Total Meetings	Proper Information Provided	Percent Compliant
Meeting Date	20	17	85%
Meeting Time	20	17	85%
Meeting Location	20	0	0%

Source: OSA Analysis of Board Meetings (July 2014 – February 2016)

The Board should ensure that all meeting minutes are made available and that the location of their Board meetings are included in the minutes as required by the OPMA.

Failure to record absent Board members limits individual Board member accountability.

OPMA requires that meeting minutes include the names of members both present and absent.²³ A review of UCA's available written meeting minutes showed that all minutes included a list of members who were present. However, none of the meeting minutes included those members who were absent.

¹⁹ UT Code 52-4-203(1).

²⁰ See UT Code 52-4-203(2).

²¹ See UT Code 52-4-203(4)(e)(ii).

²² UT Code 52-4-203(2).

²³ See UT Code 52-4-203(2)(b).

While those familiar with the Board composition may recognize the absence of specific Board members' names in the meeting minutes, some stakeholders may not necessarily know all Board members. Figure 3.5 shows the Board's compliance rate with OPMA written minutes attendance documentation requirements.

Figure 3.5 Meeting Minutes Attendance Documentation Compliance

Meeting Minutes Inclusion Requirement	Total Meetings	Proper Information Provided	Percent Compliant
Members Present	20	17	85%
Members Absent	20	0	0%

Source: OSA Analysis of Board Meeting Minutes (July 2014 – February 2016)

Additionally, some meeting minutes reported Board members as present more than once at the same meeting, which brings to question the legitimacy of record keeping. Since an audible roll call is not taken at the beginning of each open meeting, it was not possible to verify the accuracy and completeness of these attendance records by listening to existing meeting recordings. The Board should ensure that the names of Board members, both present and absent at Board meetings, are accurately included in meeting minutes as required by OPMA.

Inadequate Board minutes limit individual Board member accountability and Board transparency. Contrary to OPMA, the Board minutes we reviewed contain only slightly more than half of all votes taken by the Board, limiting the transparency of Board actions. Furthermore, Board meeting minutes do not detail how individual Board members voted on given motions and actions. In addition to violating OPMA, inadequate voting records in meeting minutes limits individual Board member accountability to their represented entity.

OPMA requires the Board to include “a record, by individual member, of each vote taken.”²⁴ None of the 20 meeting minutes reviewed contained this required information, as shown in Figure 3.6.

Figure 3.6 Meeting Minutes Voting Requirements Compliance

Meeting Minutes Requirement	Total Meetings	Proper Information Provided	Percent Compliant
Individual Record of Vote	20	0	0%

Source: OSA Analysis of Board Meetings (July 2014 – February 2016)

None of the meeting minutes reviewed contained a detailed record of each individual Board member's vote, despite the statutory requirement to do so. Additionally, Board members who

²⁴ UT Code 52-4-203(2)(d).

attended electronically were included in the “unanimous” votes recorded in the meeting minutes, even though the individuals rarely voted over the phone.²⁵

A review of the audio recordings also showed that almost half of the votes that took place during meetings were not recorded in the meeting minutes in any form. Furthermore, votes reflected in the written minutes never actually occurred in the meeting recordings for nine actions to which they were attributed. Figure 3.7 compares the number of the Board’s votes recorded in meeting minutes with the number of votes that occurred in 15 available meeting audio recordings.

Figure 3.7 Comparison Of Board Votes With Votes Recorded in Minutes

Votes in Recordings	Votes in Minutes
89	44*

**Nine additional votes reflected in the minutes never occurred in the meeting recordings*

Inadequate reporting in meeting minutes limits stakeholders’ ability to review how the Board arrived at key decisions. This issue is even more concerning given the Board’s ability to make significant financial decisions on behalf of its members, including the proposed expansion and upgrade of its 800 megahertz system expected to cost up to \$240 million. The Board should ensure that each Board member’s individual vote, as well as the overall Board vote on each issue, is included in meeting minutes, as required by OPMA.

The Board posted timely meeting minutes only once in the 20 meetings reviewed. Untimely reporting limits stakeholder review of Board meetings while the issues are most relevant, in addition to violating state statute. OPMA requires state entities, including UCA, to upload meeting minutes to the UPNW within three days of approval. Figure 3.8 shows the Board’s compliance rate with OPMA meeting minutes posting requirements.

Figure 3.8 Meeting Minutes Posting Compliance

Meeting Minutes Requirement	Total Meetings	Proper Posting	Percent Compliant
Uploaded Within 3 Days After Approval	20	1	5%

Source: OSA Analysis of Board Meeting Minutes (July 2014 – February 2016)

The Board should ensure that their meeting minutes are posted to the UPNW within the timeframe required by OPMA.

²⁵ The written minutes and audio recordings of 13 UCA Board meetings were reviewed based on the availability of both meeting minutes and audio recordings.

Inadequate Board Meeting Recordings Reduces UCA Transparency

The Board did not comply with OPMA by (1) recording all Board meetings, and (2) posting Board meeting recordings or a link to the recordings on the UPNW within three days of the meeting. The Board did not make any of their Board meeting recordings publicly available until after notified of the need to do so by the OSA in April 2016. Posting meeting recordings, as required by OPMA, is intended to ensure greater Board transparency and individual Board member accountability.

In addition to the written minutes requirements, OPMA requires that meetings be recorded (either by audio or video) and be posted to or linked from the UPNW. While UCA only recently began to comply with some aspects of the OPMA's recording requirements, they were able to provide our office with copies of the complete recordings that were made for 15 meetings.

OPMA requires, with limited exception, that recordings "be kept of all open meetings."²⁶ Each open meeting recording is then required to be "a complete and unedited record of all open portions of the meeting from the commencement of the meeting through adjournment of the meeting."²⁷ Also, each of these open meeting recordings are required to be "properly labeled or identified with the date, time, and place of the meeting."²⁸ After holding the open meeting, UCA is required to "within three business days after holding an open meeting, post on the [UPNW] an audio recording of the open meeting, or a link to the recording."²⁹

None of the meeting recordings were posted to the UPNW within three business days—as required by statute—for the 20 Board meetings reviewed since UCA's inception. UCA was able to provide complete recordings for 15 of these meetings, and has since posted more recent recordings to the UPNW; however, the recordings do not always contain the necessary information. Figure 3.9 shows the Board's compliance rate with OPMA meeting recording requirements.

Figure 3.9 Meeting Recordings Requirements Compliance

Meeting Recording Requirement	Total Meetings	Proper Action Taken	Percent Compliant
Complete and Unedited	20	15	75%
Posted Within 3 Business Days	20	0	0%
Includes Date, Time, and Location	20	0	0%
Properly Posted to UPNW	20	0	0%

Source: OSA Analysis of Board Meetings Recordings (July 2014 – February 2016)

²⁶ UT Code 52-4-203(1).

²⁷ UT Code 52-4-203(3)(a).

²⁸ UT Code 52-4-203(3)(b).

²⁹ UT Code 52-4-203(4)(e)(iii).

Since written meeting minutes can only provide limited detail as to the discussions of the Board, recordings are an important aspect to provide the public with information regarding the actions of the Board. The Board should ensure that recordings of their Board meetings are publicly available and adhere to the requirements of OPMA. Additional concerns with the Board's retention of closed meeting recordings are cited in Finding 4 of this report.

Board Members Did Not Receive Required OPMA Training In 2015

Board members did not receive statutorily required training on OPMA in 2015. Statute requires that "[t]he presiding officer of the public body shall ensure that the members of the public body are provided with annual training on the requirements of this chapter."³⁰ And as stated previously, Board bylaws reaffirm this statutory requirement to follow OPMA.³¹ The Board chair should ensure that each Board member receives annual training on the requirements of OPMA.

³⁰ UT Code 52-4-104.

³¹ UCA Board bylaws section 2.1.

Recommendations

1. We recommend that the UCA Board improve meeting notifications by:
 - a. Notifying the public regarding meetings at least 24 hours in advance.
 - b. Including the date, time, location, and agenda of each meeting in the notification.
 - c. Posting the meeting notice in a statewide publication, on the UPNW, and at the principal UCA office.
2. We recommend that the UCA Board include the following in written meeting minutes, as required by the *Open and Public Meetings Act*:
 - a. Meeting date, time, and location.
 - b. Members present and absent.
 - c. Individual board member votes.
3. We recommend that the UCA Board upload written meeting minutes to the UPNW within three business days after approval, as required by the *Open and Public Meetings Act*.
4. We recommend that the UCA Board make a complete, unedited recording of each public meeting, as required by the *Open and Public Meetings Act*.
5. We recommend that the UCA Board ensure that meeting recordings contain the meeting date, time, and location, as required by the *Open and Public Meetings Act*.
6. We recommend that the UCA Board post meeting recordings to the UPNW within three business days of the meeting, as required by the *Open and Public Meetings Act*.
7. We recommend that UCA Board members receive annual transparency training, as required by the *Open and Public Meetings Act*.

Finding 4 UCA Board Did Not Comply With Most OPMA Requirements For Closed Meetings

The Utah Communications Authority (UCA) Board (Board) did not record many of its closed meetings, as required by the *Open and Public Meetings Act* (OPMA). Additionally, insufficient documentation exists to determine the nature of discussions in the closed meetings. Due to the lack of documentation, as well as incomplete and edited recordings, we were unable to determine the appropriateness of closing meetings. In order to ensure transparency, the Board should comply with OPMA when closing a meeting.

OPMA allows a board to close a meeting for the following limited purposes:³²

- *Discussion of the character, professional competence, or physical or mental health of an individual.*
- *Strategy sessions to discuss collective bargaining.*
- *Strategy sessions to discuss pending or reasonably imminent litigation.*
- *Strategy sessions to discuss the purchase, exchange, or lease of real property.*
- *Discussion regarding deployment of security personnel, devices, or systems.*
- *Investigative proceedings regarding allegations of criminal misconduct.*

Insufficient Meeting Recordings Questions The Appropriateness Of Closing Some Board Meetings

The Board provided only three of its 10 closed meetings from July 2014 through April 2016. By failing to provide these closed sessions, the Board prevents any review of what was discussed and actions taken. Additionally, we are not able to determine if discussions in these closed meetings were permissible under OPMA.

With three exceptions, OPMA requires the Board to “...make a recording of the closed portion of the meeting.”³³ Additionally,

*A recording of a closed meeting shall be complete and unedited from the commencement of the closed meeting through adjournment of the closed meeting.*³⁴

³² UT Code 52-4-205(1) (Some statutory reasons to close a meeting were excluded from this list because they do not necessarily pertain to the UCA Board).

³³ UT Code 52-4-206(1)(a).

³⁴ UT Code 52-4-206(2).

OPMA does provide limited exceptions for not recording closed meetings that cover specific purposes,³⁵ but only two closed Board meetings fell within this exception. In the case of these two exceptions, OPMA states “the person presiding shall sign a sworn statement affirming that the sole purpose for closing the meeting was to discuss the purposes.”³⁶ The Board has not provided a signed sworn statement for either closed meeting wherein one is required.

Figure 4.1 shows the dates of the Board’s individual closed sessions, the provided reason for closing the meeting, and whether the Board made and retained a copy of the closed meeting recording.

Figure 4.1 Closed Board Meetings (July 2014 Through April 2016)

Date	Reason for Closing Meeting	Recording Required by OPMA	Recording Provided to OSA
10/28/2014	Budget numbers for presentation to the Legislative Task Force on Communications	Yes	No
10/13/2015	Executive Session - Discussion on contractual matter	Yes	Yes
10/27/2015	Executive Session - Contractual matter	Yes	Yes
12/1/2015	Executive Session - 911 contract proposals	Yes	Yes
2/23/2016	To discuss deliberations and decisions involving a procurement process	Yes	No
2/23/2016	To discuss the character, professional competence, physical or mental health of an individual and pending/imminent litigation	Yes	No
3/29/2016	Motion to close public meeting to discuss the character, professional competence, physical or mental health of an individual	No	No
3/29/2016	Motion to close public meeting to discuss pending/imminent litigation	Yes	No
4/7/2016	Motion to close public meeting to discuss the character, professional competence, physical or mental health of an individual	No	No
4/26/2016	Motion to close public meeting to discuss the character, professional competence, physical or mental health of an individual and potential litigation	Yes	No

Source: Board meeting minutes and recordings (July 2014 – April 2016)

³⁵ UT Code 52-4-206(6).

³⁶ UT Code 52-4-206(6)(a).

We are concerned that some of the discussions held during the seven unrecorded Board closed meetings should have been open to the public. Without meeting recordings or sworn statements, we are not able to determine if these closed meetings were appropriately closed. However, based on the reasons given for closing some of these meetings, it appears that some of the content discussed in closed meetings should have been discussed in an open meeting.

Insufficient Documentation For Closed Meetings Limits Board Transparency

The Board does not follow the majority of the OPMA's closed meeting public announcement and documentation requirements. OPMA requires the Board to publicly announce and record in the meeting minutes specific information for closed meetings. This information provides the public with some context about the subject matter of the closed meeting, and accountability for the Board members who are required to individually vote, either for or against, the closing of the meeting.

OPMA requires a public body, such as the Board, to publicly announce and record in its meeting minutes the following information when it closes a meeting:³⁷

- (a) the reason or reasons for holding the closed meeting;*
- (b) the location where the closed meeting will be held; and*
- (c) the vote by name, of each member of the public body, either for or against the motion to hold the closed meeting.*

The Board both publicly announced and entered in the written minutes of the open meeting the reason or reasons for holding the closed meeting for only two of 10 closed meetings. The Board partially satisfied this requirement by either publicly announcing the appropriate purpose of the closed meeting or entering it in written minutes for some closed meetings, but OPMA requires that *both* be done for every closed meeting.

The Board has never publicly announced or entered in their written minutes the location of the closed meetings. While the Board generally holds its closed sessions in the same location as the open meeting, this is only demonstrated by their actions and not publicly announced or entered in the written minutes.

The Board also has not consistently held nor documented the required manner of votes for closing public meetings. OPMA requires that "the vote by name, of each member of the public body, either for or against the motion to hold the closed meeting"³⁸ be publicly announced and entered in the written minutes. OPMA would still require the Board to include "a record, by individual member, of each vote taken."³⁹ On several occasions Board members voted by

³⁷ UT Code 52-4-204(4).

³⁸ UT Code 52-4-204(4)(c).

³⁹ UT Code 52-4-203(2)(d).

saying “here” rather than a traditional vote, potentially signifying a declaration of attendance rather than a vote to close the meeting. In addition, for one of the 10 meetings reviewed, the Board did not take a vote on whether to close the meeting.

Figure 4.2 shows the Board’s compliance rate with the OPMA closed meeting public announcement and documentation requirements.

Figure 4.2 Closed Meeting Announcement and Documentation Requirements

Closed Meeting Requirement	Total Meetings*	Proper Procedure Followed	Percent Compliant
Reason was Publicly Announced and Recorded in Minutes	9	2	22%
Location Publicly Announced and Recorded in Minutes	9	0	0%
Vote to Close Meeting Announced and Recorded in Minutes	9	0	0%

**Meeting minutes for the Board meeting held on 4/26/16 have not yet been approved, so that closed meeting was excluded from this portion of the analysis.*

Source: OSA Analysis of Board Meetings (July 2014 – April 2016)

The Board should ensure that the reason for closing a meeting is appropriate, as well as that the above requirements are publicly announced and recorded on the written meeting minutes, as required by OPMA.

The Board Has Not Included Required Information On The Closed Meeting Recordings They Have Made

None of the three recordings of closed meetings contained information required by OPMA. As previously mentioned, the Board recorded only three of the 10 closed meetings. OPMA requires that closed meeting recordings include the following information:⁴⁰

- (a) the date, time, and place*
- (b) the names of members present and absent*
- (c) the names of all others present at the closed meeting, with exceptions*

Providing such information provides context for the reviewer of closed meeting recordings that an audio recording cannot necessarily alone provide. Figure 4.3 shows the Board’s compliance rate with the OPMA closed meeting public announcement and documentation requirements.

⁴⁰ UT Code 52-4-206(3).

Figure 4.3 Closed Meeting Recording Documentation Requirements

Closed Meeting Recording Requirement	Total Meetings*	Proper Action Taken	Percent Compliant
Meeting Date, Time, and Location	3	0	0%
Board Members Present and Absent	3	0	0%
Names of Non-Board Members Present	3	0	0%

**We do not know if the Board complied with OPMA recording requirements for meetings for which no recording exists. The Board did not retain a recording for seven of its 10 closed meetings.*

Source: OSA Analysis of Board Meetings (July 2014 – April 2016)

The Board should ensure that all required information is included in closed meeting recordings as required by OPMA.

The Board Improperly Closed A Meeting Without Holding The Required Vote

On October 13, 2015, the Board closed a meeting to discuss a request for proposal (RFP) for the 911 Division. To close the meeting, a Board member made a motion to go into executive session, which was seconded by another member, but no vote was ever taken.

The Board then excused the public from the room, and shut the door, closing the meeting to non-Board members, and turned off the phone bridge. Board members present then proceeded to discuss the formation of a 911 RFP review committee and carried out two separate votes regarding this review committee. The written meeting minutes for the open meeting make no mention of this closed meeting or the votes that took place in the closed meeting.

Recommendations

1. We recommend that the UCA Board only close meetings for the limited purposes allowed by the *Open and Public Meetings Act*.
2. We recommend that the UCA Board record closed meetings when required by the *Open and Public Meetings Act*.
3. We recommend that the UCA Board sign the required sworn statement noting why the Board does not record a closed meeting, as required by the *Open and Public Meetings Act*.
4. We recommend that the UCA Board publicly announce and document all information required by the *Open and Public Meetings Act*, including:
 - a. Allowable reason for closing the meeting.
 - b. Location of the closed meeting.
 - c. Roll call vote taken to close a meeting.
5. We recommend that the UCA Board include the following information in closed meeting recordings and minutes, as required by the *Open and Public Meetings Act*:
 - a. Meeting date.
 - b. Meeting location.
 - c. Names of board members not present.
 - d. Names of non-board members present.

Finding 5

Financial Reporting To The UPFW Would Increase UCA Financial Transparency

Though the Utah Communications Authority (UCA) is exempt from following the state's *Administrative Services Code*,⁴¹ it could increase financial transparency by reporting its financial transactions on the Utah Public Finance Website (UPFW). UCA is one of only three independent entities that has not reported to the UPFW.⁴²

Conflicting statutory requirements require (1) UCA to report to the UPFW and (2) exempt UCA from adhering to the statutory act requiring reporting. Clarifying statute will help to ensure UCA reports at the level of transparency expected by the legislature.

Most Independent Entities Reported Some Financial Information To The UPFW

Figure 5.1 lists seven independent state entities⁴³ and whether they have reported financial information to the UPFW. Though most independent entities are exempt from *Administrative Services Code*, which requires reporting, four of the entities reported some financial information to the UPFW.

Figure 5.1 Independent State Entities That Have Reported To The UPFW

Entity	Report to the UPFW?*
Military Installation Development Authority	Yes
Utah Energy Infrastructure Authority	No
Heber Valley Historic Railroad Authority	Yes
Utah State Fair Corporation	Yes
Utah Communications Authority	No*
Utah Housing Corporation	Yes
Utah Dairy Commission	No

*UCA began reporting after being notified by OSA
Source: OSA Analysis

Though four state entities reported some financial information to the UPFW, it does not appear that all entities submitted information for all periods. For example, the Heber Valley Historic Railroad Authority reported financial information in 2014, but not in 2015.

⁴¹ UT Code 63H-7a-803(1)(b).

⁴² UCA began reporting financial transaction to the UPFW after we notified management of the concern in April 2016.

⁴³ The Utah State Railroad Museum Authority is a statutorily defined independent entity, but was excluded from the analysis because it does not appear to currently operate.

The submission of financial information to the UPFW increases financial transparency and improves the public's ability to evaluate individual revenues and expenditures. The UPFW is a website where many public entities are required to quarterly post detailed financial information. The purpose of the UPFW is to provide the public with the ability to review and track the use of taxpayer funds by making public financial information easily accessible.⁴⁴ The website is administered by the state's Division of Finance, and overseen by the Utah Transparency Advisory Board.

Conflicting Statutory Provisions Confuse UPFW Reporting Requirements

While statute exempts UCA from adhering to most aspects of the *Administrative Services Code*, it appears independent state entities were intended to submit to the UPFW reporting requirements. The *Administrative Services Code* specifically requires each independent state entity to "permit the public to view the entity's public financial information via the website, beginning with information that is generated . . . for the entity's fiscal year beginning in 2014."⁴⁵

It is unclear why this provision exists within a statutory title from which most independent entities are exempted. The legislature could clarify the desired level of transparent reporting by independent entities by removing statutory provisions that appear to contradict legislative intent.

Recommendations

1. We recommend that UCA report financial transactions to the Utah Public Finance Website.
2. We recommend that the legislature clarify transparency reporting requirements for all independent entities.

⁴⁴ UT Code 63A-3-402(2)(a).

⁴⁵ UT Code 63A-3-402(4)(a).

Section 3: UCA Board Should Improve Oversight

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Finding 6

UCA Board Did Not Adequately Oversee Financial Management

The Utah Communications Authority (UCA) Board (Board) chair did not appoint an audit committee to oversee financial management, as required by UCA bylaws. Without this committee, the Board did not sufficiently scrutinize UCA expenditures and finances and was not aware of funds allegedly spent inappropriately by the former employee. Additionally, the absence of this committee contributed to insufficient oversight of financial management controls.

Board bylaws illuminate the Board's responsibility for financial oversight. This section of Board bylaws, which closely mirrors statute, states that the Board shall "ensure that the communications network and funds are administered according to the law." To accomplish this responsibility, the bylaws require the Board to create an audit committee to oversee financial management. While it appears an audit committee may have existed prior to 2014 under the predecessor to the Radio Network Division—Utah Communications Agency Network—the Board has not appointed an audit committee since the creation of UCA.

Further Board bylaws require the Board chair to "appoint five (5) Members of the Board to serve on the Audit Committee and the [Board] Treasurer shall act as the chair of the Audit Committee." According to the Board bylaws, the audit committee shall:⁴⁶

- Meet at least quarterly with the financial officer to review the books of account of UCA
- Provide oversight of the books of the account as kept by the financial officer
- Review the condition of the finances of UCA
- Meet with the auditor as requested
- Review the UCA budget and current service rates presented by the financial officer, and thereafter make appropriate recommendations to the Board
- Review the UCA budget mid-year to determine whether any revisions are required, and thereafter make appropriate recommendations to the Board
- Assist the State Money Management Council in the event of an investigation or enforcement action pursuant to the State Money Management Act

The Board treasurer, who should serve as the audit committee chair, should "render a statement of the condition of the finances of the UCA, as reviewed by the Audit Committee, at least annually to the Board and at such other times as shall be required."⁴⁷ However, since there is no functioning audit committee, this task was left to the former accountant, who annually reported UCA fiscal affairs to the Board. The accountant is not sufficiently removed from UCA's day-to-day operations to form an unbiased opinion on entity financial management.

⁴⁶ UCA Board bylaws Article III, Section 4.1.

⁴⁷ UCA Board bylaws Article III, Section 2.4.4.

The absence of the audit committee decreased the Board's participation in financial management, increasing risks of misuse or mismanagement of UCA funds. Active Board participation in financial management may have identified the significant number of credit card purchases for which no UCA assets were received. Furthermore, this committee might have identified internal control weaknesses that allowed the alleged fraud to continue for at least 80 months.

By following its bylaws and taking a greater role in financial management, the Board will strengthen the control environment necessary to promote appropriate use of entity funds.

Recommendations

1. We recommend the UCA Board create an audit committee to oversee the entity financial management, as required in its bylaws.
2. We recommend that the UCA Board treasurer report UCA's financial condition to the Board at least annually, as required by Board bylaws.

Finding 7

UCA Board Has Not Formally Adopted Authority Policies And Procedures

Though the Utah Communications Authority (UCA) relies on nine policy documents from a predecessor—the Utah Communication Agency Network (UCAN)—the UCA Board (Board) had not reviewed, updated, nor formally adopted office policies until after we completed audit work and notified the Board of our concerns. The Board should review, update, and approve all office policies, as required by state statute and Board bylaws.

UCA has operated under assumed UCAN policies since its inception in July 2014. Statute requires the UCA Board to “develop broad policies for the long-term operation of the authority for the performance of its functions.”⁴⁸ The Board bylaws, which closely mirror statute, also require the Board to “approve broad policies for the long-term operation of the UCA for the performance of its functions.”⁴⁹ The Board did not comply with either of these requirements.

UCA staff claim to rely on the following nine individual UCAN policy documents:⁵⁰

- Purchasing policy and procedures
- Administrative procedures
- Budgetary procedures
- Personnel policies and procedures
- Rates procedures
- Reserve policy
- Surplus property policy
- Exercise policy
- Motor vehicle disposal policy

Figure 7.1 shows when each of these policies were created and last updated.

⁴⁸ Utah Code 63H-7a-204(8).

⁴⁹ UCA Board bylaws Article II, Section 5.8.

⁵⁰ Individual policy documents contain multiple policies that pertain to each given policy document.

Figure 7.1 UCA Policy And Procedures Adoption Dates

Policy Type	Effective Date	Last Updated	Approved by Board?
Purchasing Policy and Procedures	12/19/00	11/15/11	No
Administrative Procedures	4/17/02	--	No
Budgetary Procedures	4/17/02	--	No
Personnel Policies and Procedures	1/1/99	5/20/14*	No
Rates Procedures	5/15/02	10/21/08	No
Reserve Policy	6/19/02	--	No
Surplus Property Policy	6/22/04	10/18/05	No
Exercise Policy	7/20/04	--	No
Motor Vehicle Disposal Policy	10/18/05	--	No

**The Board discussed updating the personnel policies and procedures during the April 2016 Board meeting.*

Source: Assumed UCA policies and procedures

All of these individual policies went into effect prior to the UCA being established and any updates were also approved before its creation. The majority of the assumed policies that UCA currently claims to follow are more than 10 years old and appear to have never been updated. It is unclear if the other policies have ever been reviewed and updated for applicability.

Assumed policies also still cite “UCAN” as the entity in both the title and throughout the document, except for the budgetary procedures document, which cites UCA. It is unclear why this sole policy document has UCA in the title, as it has an approval date that predates UCA and the Board did not vote to formally adopt or update the policy.

Former UCA management claimed to rely on UCAN policies even though they were not formally adopted or approved by the Board. On several occasions, the Board discussed the need to update and approve office policies, though no action took place until we notified the Board during our audit work.

In addition to reviewing, updating, and approving office policy, the Board should ensure that office staff follow its policies and procedures. General compliance with policies and procedures designed to promote effective financial controls minimize opportunities to misuse authority funds.

Recommendations

1. We recommend that the UCA Board review, update, and formally adopt authority policies and procedures.
2. We recommend that the UCA Board regularly follow up to ensure its office and employees follow authority policies and procedures.

Finding 8

UCA Has Significantly More Board Members Than Other Independent State Entities

The Utah Communications Authority (UCA) Board (Board) has more than twice as many board members as other independent state entities, potentially convoluting authority oversight. Currently, UCA employs 24 individuals, meaning it currently has more board members than employees. UCA and its members would benefit from a review of Board composition to ensure the Board membership serves the best interest of UCA members, taxpayers, and other stakeholders.

During the audit, the Board consisted of 25 members, representing the following entities:⁵¹

- 5 members each individually representing counties of the first and second class
- 7 members representing 7 different regional associations of government
- 1 member representing Native American tribes
- 1 member representing the Utah National Guard
- 3 members each individually representing the fire chiefs, sheriffs, and chiefs of police associations
- 1 member elected by the 911 Advisory Committee
- 6 members are governor-appointed state representatives, or their designee's, from the following state agencies:
 - Utah Department of Transportation
 - Department of Public Safety
 - Department of Natural Resources
 - Department of Corrections
 - Department of Technology Services
 - Department of Health
- 1 member is the Utah State Treasurer, or his designee

House Bill (H.B.) 380, passed during the 2016 Legislative General Session added two additional members to the Board, one appointed by the Speaker of the House of Representatives and one appointed by the President of the Senate. With these two additions, the Board now has more than twice as many board members as all other state independent entity boards. Figure 8.1 compares the membership of the Board with boards from other independent state entities.

⁵¹ See UT Code 63H-7a-203.

Figure 8.1 Board Sizes of Independent State Entities

Independent State Entity	Board Size	FY 2016 Budget (in millions)
Military Installation Development Authority	7	\$1.7
Utah Energy Infrastructure Authority	9	N/A
Heber Valley Historic Railroad Authority	8	\$1.3
Utah State Fair Corporation	13	\$4.7
Utah Communications Authority	27	\$18.0
Utah Housing Corporation	6	\$10.2

**H.B. 380 added two additional members to the UCA Board*

Source: Independent state entities listed in Utah Code 63H

The legislature could potentially improve Board oversight by reevaluating the Board composition, including the number of members and representation.

Recommendation

1. We recommend that the legislature evaluate the UCA Board composition to ensure the desired level of authority, oversight, and accountability.

Appendix A Audit Scope And Methodology

A Performance Audit of Utah Communications Authority (UCA) Financial Management and Transparency was performed at the request of the Governor's Office in an effort to evaluate governance and procurement transparency. This audit was initiated due to UCA's proposed expansion and upgrade of their 800 megahertz radio system that is expected to cost up to \$240 million. We were not aware of allegations of misuse of authority funds when we began this audit.

The scope of the audit, which was narrowed based on an initial risk assessment conducted, included an evaluation of the following:⁵²

- Internal controls employed by the UCA Board (Board) and its office intended to ensure proper use of authority funds.
- Board and office compliance with the state's *Open and Public Meetings Act*.

To this end, field work for this audit—which occurred from February 2016 to April 2016—included but was not limited to the following:

- Review of UCA internal controls.
- Sample of 67 credit card transactions from January 2015 through July 2015⁵³ to evaluate proper authorization, approval, review, and reconciliation of transactions according to UCA's assumed policy. In order to obtain a cross section of transactions, we selected transactions that ended in the same number as the month and the last transaction on the statement for each month. For example, we reviewed the 1st, 11th, 21st, 31st, 41st, 51st, 61st, 71st, 86th transactions from the January 2015 statement used by accounting to review transactions. It was necessary to use the statement and receipts provided to accounting to accomplish the objectives of this test, though it appears that the credit card statements received by accounting were recreated to hide alleged fraud.
- Comparison of credit card statements received by accounting with credit card statements received from the credit card companies.
- Review of applicable state statute, Administrative Rules, state procurement policies, Board bylaws, and UCA policies and procedures.
- Evaluation of 24 Board meeting notices, agendas, minutes, and recordings from July 2014 through April 2016.
- Review of independent state entity board sizes.

⁵² H.B. 380 subjected UCA to the state *Procurement Code* effective May 10, 2016. Due to this change, the audit did not address the adequacy of UCA's procurement policies.

⁵³ This test was originally designed to review a sample of transaction through December 2015. However, it does not appear that UCA accounting reconciled credit card statement transactions to any receipts from July 2015 through March 2016.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Utah Communications Authority Response

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Utah Communications Authority (“UCA”) hereby takes the opportunity to respond to Performance Audit No. 16-01 performed by the Office of the Utah State Auditor at the request of the Governor’s Office (the “Audit”). UCA expresses its gratitude for the efforts of those who performed this audit and the recommendations provided therein. As a consequence of recent events, UCA, concurrent with the Audit, began the task of evaluating its processes, procedures, and practices and has implemented a number of changes. Many of the recommendations contained in the Audit have already been voluntarily addressed by UCA which takes comfort from knowing that the Office of the Utah State Auditor agrees with the changes UCA has made.

As noted in the Audit, UCA was established in 2014 in an effort to create a statewide, interoperable emergency communications network. In so doing, Utah has become a model for states around the country, many of which still have a patchwork of regional and other local public safety entity networks and state owned networks with little or no compatibility or interoperability. In contrast, emergency responders from one end of Utah to the other can communicate to effectively and efficiently manage police, fire, medical, and other emergencies thereby saving Utahn’s lives and property.

UCA is unique in that the assets required to create the above referenced network were granted to UCA both by the State of Utah, but to a greater degree, by the regional and other local public safety entities located throughout the state. These local and regional entities, in agreeing to grant their network equipment to UCA for this integrated network, insisted that UCA *not* be a division of the State, but instead, maintain some level of autonomy and control. As such, UCA was established as an independent state entity controlled by a Governing Board comprised of representatives of these stakeholders, as outlined by in statute and in the audit. While reviewing the status of UCA as an independent agency, as suggested by the Office of the Utah State Auditor, it is important to remember why founding officials believed this form of governance to be important. Specifically, governance shared amongst all levels of stakeholders that use and manage the 911 telephone and public safety radio system allows for multiple interests and needs to be better served, thereby enhancing coordination amongst the users and delivering improved service to tax payers. The question of whether or not UCA should remain an independent state entity is a policy decision, however, UCA encourages those who may be called upon to answer this question to consider the financial costs of this kind of change, consider how regional and other local public safety entities may respond to such a change, and consider the effect such a change may have on the statewide interoperability network.

Turning now to the Audit’s Findings and Recommendations, addressed in the order such are presented in the Audit.

Finding 1 – Inadequate Internal Controls Allowed Alleged Fraud to Continue Undetected.

As is publicly known, UCA recently discovered that a long-time employee and her adult daughter had been misappropriating UCA funds for their own purposes through the use of

Office of the Utah State Auditor

UCA's credit cards and the subsequent alteration of UCA's credit card statements. UCA terminated this employee and promptly filed civil claims in an effort to freeze any assets these individuals had to aid in UCA's recovery of the lost funds. Though UCA's review of the circumstances that allowed this theft to occur are still ongoing, it does not dispute the Audit's findings. Following UCA's discovery, both UCA's outside accounting entity as well as its Executive Director resigned.

UCA, within days of discovering the credit card abuse, eliminated all unassigned credit cards and is in the process of cancelling its credit card account in favor of the State's Purchasing Card System which has embedded in it a number of security measures, as discussed in the Audit. UCA has engaged a third party accounting firm on an interim basis to perform UCA's accounting functions. This firm has *no* power to use UCA's credit/purchasing cards and has been specifically tasked with reviewing *all* charges on the statement and reconciling these charges against receipts. UCA has instructed its employees that they are required to have receipts for *all* credit/purchasing card transactions and the proper spending limits have been or are in the process of being applied to each employee's credit/purchasing card. UCA has also requested that two of its board members review and revise UCA's credit/purchasing card policies to ensure that they provide the necessary protections against any future abuse and to comply with Utah's Procurement Code which UCA recently became subject to. All told, most, if not all, of the recommendations of the audit with respect to Finding Number 1 have been implemented. UCA anticipates that all of these recommendations will be implemented (if not already) in the coming months.

Finding 2 – Compliance with Procurement Policies Will Improve UCA Financial Management.

One of the hallmarks of the credit card abuse referenced in the Audit was the perpetrator's attempts to hide their actions by manipulating UCA's credit card statements to disguise their charges. As such, vendors identified in the Audit such as liquor stores, gas stations, and grocery stores, were not readily identifiable on the face of the credit card statements presented to UCA. Nevertheless, UCA agrees that stricter procurement policies and procedures would have made it much more difficult for the misappropriation to occur.

As recommended by the Audit and previously noted above, UCA is in the process of moving away from its credit cards in favor of the State's purchasing cards. Though not subject to state purchasing policies, UCA agrees with and has implemented (or is in the process of implementing) policies including: (1) single purchase credit limits; (2) monthly credit limits; (3) restricting certain merchant category codes; (4) retaining itemized monthly purchase logs for each individual credit/purchasing card; (5) reconciling these purchase logs with the applicable receipts; (6) requiring original receipts be provided for all charges; and (7) conducting random audits of card usage. In addition, the soon to be reconstituted audit committee of UCA's Board will review those transactions that are generally blocked based on merchant category codes to confirm that such charges serve a legitimate business purpose.

Finding 3 – The UCA Board Actions do not Comply with the State's Open and Public Meetings Act.

Though UCA does not necessarily agree with all of these findings, it does acknowledge room for improvement in this area. It has come to UCA's attention, including through this audit, Office of the Utah State Auditor

that certain actions which UCA's Board believed were being taken by its Executive Director were not occurring. Since that time, UCA has rectified this problem, to the extent possible, and is committed to compliance with the State's Open and Public Meetings Act. To that end, UCA has done, and will continue to do, the following:

1. Notify the public regarding meetings at least 24 hours in advance including the date, time, location, and agenda of each meeting. UCA will post this notice on the Utah Public Notice Website ("UPNW") (which, per statute, satisfies the need for posting such in a statewide publication) and at UCA's principal office;
2. Include in its meeting minutes: the meeting date, meeting time, meeting location, members present, members absent, and individual board member votes;
3. Upload written meeting minutes to the UPNW within three (3) business days following their approval;
4. Make complete and unedited recordings of each public meeting and post the same to the UPNW within three (3) business days of the meeting;
5. Ensure that these recordings contain the meeting date, time, and location; and
6. Provide annual transparency training for the members of the Board.

Finding 4 – UCA Board did not Comply with Most OPMA Requirements for Closed Meetings.

Though UCA does not agree with all of these findings, it acknowledges there is room for improvement. To that end, UCA has done, and will continue to do, the following:

1. Only close meetings for the purposes permitted by law;
2. Record closed meetings unless statutorily permitted not to do so, in which case the Chairman/Chairwoman of UCA's Board will sign a sworn statement affirming that the sole purpose for closing the meeting was to discuss the purposes described under Utah Code Ann. § 52-4-205(1)(a), (1)(f), or (2);
3. Publicly announce and document the allowable reason for closing the meeting, the location of the closed meeting, and the roll call vote taken to close a meeting;
4. Ensure that closed meeting recordings and minutes contain the meeting date, meeting location, and names of all who are present.

Finding 5 – Financial Reporting to the UPFW Would Increase UCA Financial Transparency.

There has been a lot of misperception about whether or not UCA is/was required to report its financial information to the Utah Public Financial Website ("UPFW"). UCA appreciates the Audit's correct conclusion that UCA is currently, and has historically, been exempt from so reporting. UCA agrees, however, that greater financial transparency is appropriate and has, voluntarily, begun reporting its financial information for posting on the UPFW. UCA also

supports amending the law to require UCA to make this reporting mandatory rather than voluntary.

Finding 6 – UCA Board did not Adequately Oversee Financial Management.

UCA acknowledges that the former UCAN audit committee was not properly constituted or functioning and has actively taken steps to reconstitute this audit committee, which: (1) will not include the chair of UCA's Board; (2) will report directly to the UCA Board; and (3) has the authority to request its own legal counsel and/or accountants to assist, as necessary. When reconstituted, this committee will be tasked by UCA's Board with overseeing the financial management of UCA per UCA bylaws. In addition, the chair of the UCA audit committee, UCA's Treasurer, will report UCA's financial condition to the Board at least annually, if not more frequently.

Finding 7 – UCA Board has not Formally Adopted Authority Policies and Procedures.

As noted, UCA had not *formally* adopted policies and procedures; however, UCA was operating under those policies and procedures applicable to its predecessor, UCAN. UCA has recently *formally* adopted these policies and is in the process of reviewing and updating each policy, as necessary. The UCA Board is committed to compliance with, on behalf of itself and UCA's employees, its policies and procedures, as recommended by the Audit.

In addition, UCA has entered into a service level agreement with the Utah Department of Human Resource Management ("DHRM") to assist in the human resources management for UCA. UCA is also working with the Utah Department of Administrative Services, Division of Finance to address UCA's financial management and policies going forward.

Finding 8 – UCA Has Significantly More Board Members than Other Independent State Entities.

The make-up of UCA's Board is a function of statute, as noted by the Audit. While UCA agrees that the size of its Board can, at times, be problematic, it is a board that represents the many varied interests of the stakeholders using the statewide, interoperable emergency communications network. For that reason, decreasing the size of UCA's Board may be difficult and/or leave some stakeholders unrepresented.

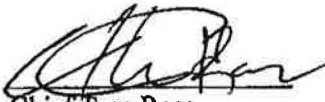
UCA has reviewed its bylaws and the relevant statutes and believes it has the authority to constitute an executive committee to make recommendations to the Board for final approval. The Board intends to discuss creating this committee to alleviate the problems identified in the Audit. To the extent the legislature was interested in making this committee a product of statute and/or defining its rights and responsibilities, UCA would be willing to participate in such a discussion and would welcome the direction.

Conclusion

As previously noted, UCA appreciates the Audit and the efforts taken by the Office of the Utah State Auditor to provide UCA with this Audit. The timing of this audit, coinciding with UCA's discovery of the previously discussed credit card abuse, is helpful in providing recommendations to avoid any future abuses and in assisting UCA to ensure that the other areas of its operations continue without incident. For the most part, UCA has already instituted the recommendations contained in this Audit. UCA and its Board are committed to the continual improvement of the agency's financial management and transparency. UCA believes that it can provide the requisite levels of transparency and financial management to continue to be a valuable resource to the State of Utah, the regional and other local public safety entities throughout the state, and to the individual citizens of the state and these regional and local entities who rely on UCA's model statewide, interoperable emergency response network, all while remaining independent.



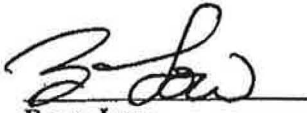
Tina Mathieu
Chair of UCA's Governing Board



Chief Tom Ross
Vice-Chair of UCA's Governing Board



Chief Mike Mathieu
Member of UCA's Governing Board



Bryan Low
Member of UCA's Governing Board